Domestic
Petroleum
Council

RULES PROCESSING TEAM

MAR 3 1 2005

March 31, 2005

Department of the Interior
Minerals Management Service
Attention: Rules Processing Team
381 Elden Street, Mail Stop 4024
Herndon, Virginia 20170-4817

Re: Comments on MMS Proposed Rule Making for Increase Base Rentals and the Use of Sliding Scale Rentals in the Gulf of Mexico (GOM) Lease Sales. (70 Federal Register 10111-10112, March 2, 2005)

The Domestic Petroleum Council (DPC) opposes the proposed rental increases and believes that increasing rental rates are not in the best interest of the industry or the nation.

We appreciate the opportunity to provide these comments to the Minerals Management Service (MMS) regarding the agency's proposed increase in base rentals for all newly issued leases in the OCS Gulf of Mexico (GOM) and the implementation of a sliding scale component for rentals on leases located in deep water (greater than 200 meters) because of the strong presence of DPC member companies in the Gulf of Mexico oil and gas industry. Our member companies have almost 4,900 total OCS lease interests, more than 2,800 as operator. They also have more than 2,300 deepwater lease interests in the Gulf of Mexico, including almost 1,200 operator designations (with more than 1,000 ultra-deep interests, more than 500 of those as operator).

This proposed increasing in rental rates for Base Lease Rentals comes at a time when the Department of Interior should be taking any and all measures to encourage more leasing activity in the GOM to enable future exploration and development of our country's domestic natural resources.

If increasing revenues are an objective of this effort, the Department of the Interior should be striving to increase the leasing activity in the OCS, not discouraging it by increasing the lease rental costs. This effort should include assessing the reserve and economic potential and carrying out required environmental and other work in preparation for the next 5-Year OCS Leasing Plan for the nation in those areas of the OCS not just currently available for exploration and production, but also in those withheld from leasing under administrative and legislative moratoria.

Increasing rental rates to adjust for inflation may seem reasonable under some circumstances, but we question whether there should be significant increases at the very time we are attempting to encourage operators, which in shallower waters and deeper ones as well are increasingly independents, to put more and more capital into projects seeking to find smaller and more-difficult-to-produce resources.

The proposed rate increase comes at a time when rig rates and service costs are on a rapid rise, maintenance costs are increasing dramatically for the existing aging GOM infrastructure and the decline of the base shelf production continues. New exploration efforts and success are paramount to the ability of the Gulf of Mexico oil and gas industry to continue to provide the nation with energy. We cannot help but believe that any cost increases will have adverse effects as producers attempt to allocate capital to best accomplish exploration, development and production goals.

Furthermore, the proposed increase in rentals for deepwater leases together with the addition of a sliding scale is excessive and will significantly increase the leasehold costs required to secure the leasehold cost required for an operator to efficiently explore in the Deep Water GOM. Deepwater GOM leases are typically very complex and economically challenged and require longer time to mature the geological concept and evaluate the ultimate potential. Many deep-water leases are purchased based on geological leads that can require a large investment in data and evaluation efforts that operators cannot justify until sufficient leasehold is secured. This is especially true in emerging trends where significant acreage is required to ensure the leasehold containing the prospect is adequately controlled before additional investments in data and geological interpretation can be justified. Adding a sliding scale rental schedule is contrary to the concept of a leasing program that recognizes these challenges by the simple fact that deep-water leases are let with a 10-year primary term. The unintended result of the sliding scale rentals could actually be that the industry less willing to follow geological leads that may open new trends with high potential.

In summary, the Domestic Petroleum Council urges the MMS to re-consider the proposed rule making.

If there are any questions please do not hesitate to contact me at the number below or Bill Whitsitt (President, Domestic Petroleum Council) at 202-742-4300.

Sincerely,

Jim Zernell

Jim Zernell

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